**UNIT 4**

**Role of support institution and management of small business:**

Government has recognized the important role of entrepreneurs in the industrial development of the country, especially through the Small Scale Industries (SSIs). SSIs are essential for Indian economy in terms of employment generation, foreign exchange earnings, and its share in industrial output, and contribution to national income. The government of India and state governments provides a number of special facilities and incentives.

The incentives not only motivate entrepreneurs to set up industries in the small scale sector, but also strengthen the entrepreneurial base in the economy. The new entrepreneurs face a number of problems on account of inadequate infrastructure facilities and other support services.

The government offers a package of services through its specialized institutions and motivates entrepreneurs to take advantage of the various facilities and establish enterprises and flourish. This package includes assistance in obtaining finance, help in marketing, technical guidance, training, and technology up gradation etc. It is hoped that institutional incentives would play a key role in the promotion of small enterprises and ensure their self-sustained growth.

## 13.1 Central Level Institutions

Following are the various central level institutions that support small business enterprises:

### 13.1.1 Small Scale Industries Board

SSI Board is the apex non-statutory advisory body constituted by the Government of India to render advice on all issues pertaining to the SSI sector. It provides a forum to its members for interaction to facilitate cooperation and inter-institutional linkages and to render advice to the Government on various policy matters, for the development of the sector.

### 13.1.2 Small Industry Development Organization(SIDO)

The Office of the Development Commissioner (Small Scale Industries) is also known as the Small Industry Development Organization (SIDO). It is an apex body, established in 1954, for assisting the Ministry in formulating, coordinating, implementing and monitoring policies and programmes for the promotion and development of small scale industries. It has over 60 offices and 21 autonomous bodies under its management, including Tool Rooms, Training Institutions and Project-cum-Process Development Centres etc. Functions of such main bodies are as follows:

(a) ***Small Industries Service Institutes (SISIs)*** are operational one in each state. They provide technical support and consultancy services, conduct entrepreneurship development programmes, and export promotion and liaison activities Emphasizes is also placed on implementation of programmes on modernization, energy conservation, quality control/ up gradation and pollution control for the benefit of entrepreneurs.

(b) ***Regional Testing Center (RTC)*** provides Testing facilities for product quality up gradation.

(c) ***Tool Rooms/Tool Design Institutes (TRs/TDI)*** assist SSIs in technical up gradation, and provide good quality tooling by designing and producing tools, moulds, jigs & fixtures, components, etc.

(d) ***Product-cum-Process Development Centres (PPDCs)*** look into their specific problems and render technical service.

(e) ***Central Footwear Training Institutes (CFTIs)*** develop footwear designing to promote exports.

Thus, the main services rendered by DC SSI office are:

(a) Advising the Government in policy formulation for the promotion and development of small scale industries.

(b) Providing techno-economic and managerial consultancy, common facilities to small scale units.

(c) Providing facilities for technology upgradation, modernization, quality improvement and infrastructure.

(d) Developing Human Resources through training and skill upgradation.

(e) Providing economic information services.

(f) Maintaining a close liaison with the Central Ministries, Planning Commission, State Governments, Financial Institutions and other Organisations concerned with development of Small Scale Industries.

(g) Evolving and coordinating policies and programmes for development of Small Scale Industries as ancillaries to large and medium scale industries.

(h) Monitoring of Prime Minister Rozgar Yojna (PMRY) Scheme.

### 13.1.3 National Small Industries Corporation (NSIC)

The National Small Industries Corporation Ltd. was set up in 1955 with a view to promoting, aiding and fostering the growth of small scale industries in the country with focus on commercial aspects of these functions. NSIC continues to implement its various programmes and projects throughout the country to assist the SSI units. The Corporation has been assisting the sector through the following schemes and activities:

(a) ***Composite Term Loan Scheme:*** To promote small-scale sector, NSIC has launched a Composite Term Loan Scheme for the benefit of existing and prospective entrepreneurs to acquire land and building, machinery and equipment and working capital under one roof to the tiny units.

(b) ***Hire Purchase Scheme:*** Supply of indigenous and imported machinery and equipment on easy financial terms with special focus on women entrepreneurs, weaker sections, handicapped and ex-servicemen and SC/ST entrepreneurs.

(c) ***Equipment Leasing:*** It is done mainly to facilitate SMEs to expand their capacities or diversify and/or upgrade their technology according to the needs of the market.

(d) ***Working Capital Finance:*** This Scheme aims at augmenting working capital of viable and well managed units, on selective basis in case of emergent requirements to enable them to pay-off their purchase of consumable stores, spares and production related overheads particularly electricity bills, statutory dues.

(a) ***Raw Material Assistance:*** It facilitates availability of scarce raw material either through the domestic market or by importing.

(b) ***Marketing Support Programme:*** NSIC has been trying to act as a major agency to bring SMEs closer to various Governmental purchasing agencies, with the intention of creating confidence in the purchasing agencies about SMEs, and their capabilities to supply goods and services of requisite quality, economic prices and adherence to agreed delivery schedules.

(c) ***Tender Marketing:*** It participates in bulk local/global tender on behalf of Small Scale Industries/Enterprises. It is aimed at assisting SSIs with the ability to manufacture quality products but which lack brand equity & credibility or have limited financial capabilities.

(d) ***Integrated Marketing Support:*** NSIC has been operating an Integrated Marketing Support Programme in which bills pertaining to supplies made by small scale units to eligible purchasers are discounted by NSIC up to a certain specified limit.

(e) ***Government Stores Purchase Programme:*** The units registered with the Corporation for participation in government purchase programme are considered at or with individual purchase organisations and derive all the benefits like free supply of tender forms, exemption from payment of earnest money, security deposits, etc.

(f) ***Technology Up gradation:*** Excellent technical support is provided to SSIs/SMEs through five NSIC-Technical Service Centres. These centres have been recognised by Council of Scientific and Industrial Research for in-house R&D. NSIC has set up a Technology Transfer Centre. The latest information is provided to on-line connections and networks of computers on matching technology seekers and technology providers are arranged through the Technology Transfer Centre.

(g) ***Software Technology Parks:*** NSIC has set up a NSIC-STP Complex under Software Technology Parks of India (STPI). Software Technology Parks facilitates small scale units to establish their units for the 100% export of software and also act as the major point to activate software exports directly through NSIC.

t.

NSIC-STP provides high speed better communication facilities through VSNL/SATCOM networks, built-up office space, and uninterrupted power supply, back-up power through DG sets, a modern business centre and other administrative support.

(h) ***Exports:*** NSIC is providing a complete package of export assistance, testing facilities, pre- shipment credit facility, export incentives etc. apart from exposure to the products of SSEs in trade fairs, buyer and seller meets etc.

### 13.1.4 Khadi and Village Industries Commission (KVIC)

The Khadi and Village Industries Commission (KVIC) is a statutory body created by an Act of Parliament in April 1957. The KVIC is supposed to do the planning, promotion, organisation and implementation of programmes for the development of Khadi and other village industries in the rural areas in coordination with other agencies engaged in rural development wherever necessary.

### 13.1.5 National Institute of Small Industry Extension Training (NISIET)

National Institute of Small Industry Extension Training (NISIET), Hyderabad, which undertakes operations ranging from training, consultancy, research and education, to extension and information services.An autonomous arm of the Ministry of Small Scale Industries and Agro and Rural Industries (SSI & ARI), the Institute strives to achieve its avowed objectives through a gamut of operations ranging from training, consultancy, research and education, to extension and information services.

***A Centre of Excellence:*** It was in 1984 that the UNIDO had recognised SIET as an institute of meritorious performance under its Centres of Excellence Scheme to extend aid. Subsequently, it was also accorded national status and SIET Institute became NISIET in the same year.

The NISIET was setup as an apex institute in 1960 by the Government of India, with the Charter of assisting in the promotion, development, and modernization of Small and Medium Enterprises (SMEs) to progress towards success and prosperity. With this vast expertise in the areas of entrepreneurship, policy, technology, management, and information services, the institute is consistently assisting the SMEs to face with confidence, the challenge brought about by globalization and the impact of IT on their businesses. As a global organization, NISIET's stellar role in positioning the SMEs on the growth trajectory has benefited not only the Indian SME sector, but also developing countries around the world, in promoting self-employment and enterprise development. The institute is constantly evolving with time, modifying is focus with the emerging need of SMEs, providing them solutions in the form of consultancy, training research, and education to retain their competitive edge in ever-hanging makers.

### 13.1.6 National Institute for Entrepreneurship and Small Business Development (NIESBUD)

National Institute for Entrepreneurship and Small Business Development (NIESBUD), New Delhi, it conducts national and international level training programmes in different fields and disciplines.

The National Institute for Entrepreneurship and Small Business Development (NIESBUD), an autonomous institution under the ministry of micro, small and medium enterprises, Government of India, has joined hands with the International Finance Corporation, a member of the World Bank Group, for jointly undertaking different projects relating to entrepreneurship development in India.

**Figure 13.1: National Institute for Entrepreneurship and Small Business Development**

***Source:*** Lall Madhurima (2012), *Small Business Management*, Excel Books Pvt. Ltd.

National Institute for Entrepreneurship and Small Business Development (NIESBUD) is a premier Institute under the Ministry of MSME for coordinating, training and overseeing the activities of various institutions and agencies engaged in Entrepreneurship Development particularly in the area of small industry and small business. NIESBUD has launched a major project for Entrepreneurship and Skill Development of 35,000 youth by December 2011 in the states of West Bengal, Uttarakhand, Uttar Pradesh, Madhya Pradesh, Haryana, Delhi, Rajasthan, Orissa, Bihar, Jharkhand, Chhattisgarh, Punjab, J&K, Gujarat and Union Territory of Chandigarh. NIESBUD is one among several Institutions functioning under the Ministry of MSME. In its endeavour to spread entrepreneurial culture throughout the country, the Ministry is being assisted by two more entrepreneurship development Institutions namely National Institute for Micro, Small and Medium Enterprises (NI-MSME), Hyderabad and Indian Institute of Entrepreneurship, Guwahati.

## Identifying Skills for Maximum Employment

The Skills have been identified on the basis of market needs to ensure maximum employment. The Institute hopes that at least 25% of the participants will be employed within this financial year. The main skills identified are Housekeeping & Hospitality, Retail Management, IT & ITES, Light Engineering, Fashion Designing, Artificial Gems & Jewellery and Cosmetology and Beautician. Most of these training programmes are being sponsored by the Ministry under the Scheme of 'Assistance to Training Institutes'. The participants are encouraged to gain self employment and are provided hand holding support under the scheme of Rajiv Gandhi Udyami Mitra Yojana (RGUMY) being implemented by the Ministry of MSME. The programmes are closely monitored to ensure the highest quality.

*Example:* The District Administration, Industry and Business Associations, Bankers and Placement Agencies are closely involved with the programmes.

### National and International Forum for Exchange of Ideas

NIESBUD has been conducting training programmes for national and International participants since 1983 besides conducting research studies and providing guidance and consultancy to new and existing entrepreneurs in MSME sector.

*Example:* NIESBUD has been working with different Ministries like Ministry of Labour and Employment, Rural Development, Social Justice & Empowerment, etc. and assisting them in fulfilling their objectives.

**Promoting Entrepreneurship**

NIESBUD has helped Central and State Governments and their agencies in promoting entrepreneurship in their respective areas by way of guidance, consultancy, etc. It has also provided support and guidance to various countries in Asia and Africa.

NIESBUD has recently organized more than 100 Workshops in different Engineering Colleges, Management Institutions and others in order to create awareness among the students and faculty in realizing the power of entrepreneurship. Thousands of students and hundreds of Faculties realized that the ultimate need of the country is not only to create another employee rather to establish entrepreneurs

> *Notes* Till the end of 2010–11, the Institute has trained more than 75,000 persons including 2100 from 125 countries and plans to conduct 8 international training programmes for training 200 participants from 25 Countries in 2011–12 the Institutes will also train at least 40,000 persons in employable skills and will strive for the wage and self employment of at least 10,000 participants.

who will in turn provide employment to many persons.

## 13.2 State Level Institutions

State Level Institutions execute different promotional and developmental projects/schemes and provide a number of supporting incentives for development and promotion of small scale sector in their respective States. These are executed through State Directorate of Industries, who has District Industries Centres (DICs) under them to implement Central/State Level schemes. The State Industrial Development Corporations also look after the needs of the small-scale sector.

### 13.2.1 State Industrial Development Corporations (SIDCs)

Incorporated under the companies Act, 1956 SIDC's were set up in different states as wholly owned companies for promoting industrial development in their respective states. The main functions of SIDC's are as follows:

(a) Providing term finance to all small, medium and large industrial enterprises set up in state.

(b) Underwriting and directly subscribing to shares, and debentures of debentures of industrial enterprises being set up in the state.

(c) Preparing feasibility studies, conducting market surveys and motivating private entrepreneurs to set up their industrial ventures in the state.

(d) Collaborating with private entrepreneurs to set up industrial ventures in joint and assisted sector.

(e) Implementing scheme of 'Industrial Development Bank of India' of seed capital in the state.

### 13.2.2 State Directorate of Industries (SDIs)

Under the constitution of India promotion and development of small scale industries is a State subject. Therefore, the primary responsibility for implementation of policies and programmes of assistance rests with the Directorate of Industries in each State. It acts under the overall guidance of SIDO and concerned Central institutions. It performs both regulatory and developmental functions. It functions through a network of District Industries offices, industries offices and extension offices at district sub-division and block level respectively.

The main functions of Directorate of Industries are as follows:

(a) Registration of small scale units

(b) Providing financial assistance

(c) Distributing scare and indigenous raw materials to industrial units

(d) Granting essentiality certificates for import of raw material

(e) Establishing industrial estates and industrial cooperatives

(f) Developing industrial infrastructure

(g) Undertaking industrial surveys and collecting information

(h) Arranging concessions and incentives for industries

(i) Overall administration of village and small scale industries

(j) Maintaining liaison with other agencies for industrial development

### 13.2.3 District Industries Centres (DICs)

The District Industries Centers programme was launched in 1978 for effective promotion of cottage and small scale industries widely dispersed in rural areas and small towns. These centers are the focal points providing all the services and support required by small scale and village entrepreneurs under one roof. These serves as an integrated administrative framework at the district level for industrial development.

The main functions of DICs are as follows:

1. It conducts surveys to know industrial potential of a district keeping in view the availability of raw material, human skills, infrastructure, demand, etc.
2. It prepares an action plan for industrial development.
3. It appraises the various investment proposals received from entrepreneurs.
4. It guides and assists entrepreneurs in buying appropriate machinery and equipment and raw material.
5. It suggests appropriate marketing strategies to entrepreneurs.
6. It maintains links with research and development institutions for upgradation of technology, quality improvement, industrial training etc.
7. It conducts artisans training programmes.
8. It has been assigned operation responsibility for special schemes to provide self- employment to educated unemployed youths.

### 13.2.4 Small Industries Development Bank of India (SIDBI)

Of all the elements that go into a business, credit is perhaps the most crucial. The best of plans can come to naught if adequate finance is not available at the right time. SSIs need credit support not only for running the enterprise and operational requirements but also for diversification, modernization/ up gradation of facilities, capacity expansion etc. In respect of SSIs, the problem of credit becomes all the more critical when ever any episodic event occurs such as a large order, rejection of consignment, inordinate delay in payment etc. In general, SSIs operate on tight budgets, often financed through owner's own contribution, loans from friends and relatives and some bank credit.

Government of India recognized the need for a focused credit policy for SSIs in the early days of promotion of SSIs and RBI has been instrumental in devising a multi-stage approach/financial system for credit dispensation to different sectors of the economy, for example, agriculture, industry, exports, SSIs etc. The SIDBI was established in 1990 as the apex refinance bank. The SIDBI is operating different programmes and schemes through five Regional Offices and 33 Branch Offices. The financial assistance of SIDBI to the small scale sector is channelized through the two routes – direct and indirect.

### Indirect Assistance

(a) SIDBI's financial assistance to small sector is primarily channelized through the existing credit delivery system, which consists of state level institutions, rural and commercial banks.

(b) SIDBI provides refinance to and discounts bills of Primarily Lending Institutions (PLI).

(c) The assistance is available for

- Marketing of SSI product
- Setting up of new ventures
- Availability of working capital
- Expansion
- Modernization
- Human resource development
- Diversification of existing units for all activities

### Direct Assistance

(a) The loans are available for new ventures, diversification technology upgradation, modernization and expansion of well run small scale enterprises. Assistance is also available for private sector.

(b) Small scale sector is eligible for maximum debt-equity ratio of 3:1.

(c) Foreign currency loan for import of equipment are also available to export oriented small scale enterprises.

(d) SIDBI also provide venture capital assistance to the entrepreneurs for their innovative ventures if they have a sound management team, long term competitive advantage and a potential for above average profitability leading to attractive return on investment.

### New Initiatives of SIDBI

- Two Subsidiaries viz. SIDBI Venture Capital Limited and SIDBI Trustee Company Limited formed to oversee Venture Capital.
- Technology Bureau for Small Enterprise formed to oversee Technology Transfer, Match making Services, Finance Syndication and facilitating Joint Ventures.
- SIDBI Foundation for Micro Credit has been launched to provide financial assistance to the poor and to meet emerging needs of the micro finance sector especially in rural areas.

## 13.3 Other Agencies

Following are the other independent agencies that support Small business enterprises:

### 13.3.1 National Bank for Agriculture and Rural Development

NABARD is set up as an apex Development Bank with a mandate for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas. In discharging its role as a facilitator for rural prosperity NABARD is entrusted with:

1. Providing refinance to lending institutions in rural areas.
2. Bringing about or promoting institutional development.
3. Evaluating, monitoring and inspecting the client banks.

Besides this pivotal role, NABARD also:

1. Acts as a coordinator in the operations of rural credit institutions.
2. Extends assistance to the government, the Reserve Bank of India and other organizations in matters relating to rural development.
3. Offers training and research facilities for banks, cooperatives and organizations working in the field of rural development.
4. Helps the state governments in reaching their targets of providing assistance to eligible institutions in agriculture and rural development.
5. Acts as regulator for cooperative banks and RRB's.

Set up in 1982, provide refinance assistance to State Cooperative Banks, Regional Rural Banks, and other approved institutions for all kinds of production and investment credit to SSIs, artisans, cottage and village industries, handicrafts and other allied activities. Helps SSI entrepreneurs to get loan for setting up SSIs in any part of the country.

### 13.3.2 Housing and Urban Development Corporation Ltd. (HUDCO)

Wholly owned company of GOI, incorporated Apr.1970, as a Pvt. Ltd. Co. and subsequently, converted into a Public Ltd. Co. in 1986. Primary objective is to provide assistance for urban, social sector infrastructure, and the creation of housing facility, of late, to create SSI infrastructure. Also extends assistance for the promotion of building material industries, besides imparting consultancy, training and technical in related matters.

### 13.3.3 Technical Consultancy Organizations (TCOs)

Set up by all-India financial institutions during 70s and 80s to cater to consultancy needs of SMEs and new entrepreneurs. Services include preparing project profiles and feasibility studies, undertaking industrial potential surveys, identifying potential entrepreneurs and provision of technical and management assistance to them, undertake market research and surveys for specific products, carrying out energy audit and energy conservatism assignment, project supervision, taking up assignments on a turnkey basis, undertaking export consultancy for EOU.

**Small Industries Service Institutes(SISI)**

The small industries service institutes (SISI's) are set-up one in each state to provide consultancy and training to small and prospective entrepreneurs. The activities of SISs are co-ordinate by the industrial management training division of the DC, SSI office (New Delhi). In all there are 28 SISI's and 30 Branch SISI's set up in state capitals and other places all over the country.

SISI has wide spectrum of technological, management and administrative tasks to perform.

**Functions of SISI**

1. To assist existing and prospective entrepreneurs through technical and managerial counseling such as help in selecting the appropriate machinery and equipment, adoption of recognized standards of testing, quality performance etc;

2. Conducting EDPs all over the country;

3. To advise the Central and State governments on policy matters relating to small industry development;

4. To assist in testing of raw materials and products of SSIs, their inspection and quality control;

5. To provide market information to the SISI's;

6. To recommend SSI's for financial assistance from financial institutions;

7. To enlist entrepreneurs for partition in Government stores purchase programme;

8. Conduct economic and technical surveys and prepare techno-economic feasible reports for selected areas and industries.

**State Financial Corporation (SFC)**:
**Its main objectives are:**
i. To provide term loans for the acquisition of land, building, plant and machinery.
ii. To promote of self-employment.
iii. To encourage women entrepreneurs
iv. To bring about expansion of industry
v. To provide seed capital assistance.

## 9.1 Financial Statements

Financial statements are necessary sources of information about companies for a wide variety of users. Those who use financial statement information include company management teams, investors, creditors, governmental oversight agencies and the Internal Revenue Service. Users of financial statement information do not necessarily need to know everything about accounting to use the information in basic statements. However, to effectively use financial statement information, it is helpful to know a few simple concepts and to be familiar with some of the fundamental characteristics of basic financial statements.

Following are the four main accounting statements:

### 9.1.1 Balance Sheet

The Balance Sheet is a statement detailing what a company owns (assets) and claims against the company (liabilities and owners' equity) on a particular date. Some analysts take the balance sheet as similar to a snapshot illustrating a company's financial health. Keeping in mind the assets and claims, it is helpful to remember the "left–right" accounting equation orientation – assets on the left side, claims on the right. In addition, there are a number of other characteristics of the balance sheet that are noteworthy, such as balancing, order of listing, valuing of items, and definitions of items.

The balance sheet must balance – that's why it's called a balance sheet. In other words, the assets must equal the claims on assets.

*Did u know?* The concept of balancing relies on the accounting equation:

| Assets = Liabilities + Owner's Equity |
|---|

Each of the three segments of the balance sheet will have many accounts within it that document the value of each. Accounts such as cash, inventory and property are on the asset side of the balance sheet, while on the liability side there are accounts such as accounts payable or long-term debt. The exact accounts on a balance sheet will differ by company and by industry, as there is no one set template that accurately accommodates for the differences between different types of businesses.

*Notes* A company has to pay for all the things it has (assets) by either borrowing money (liabilities) or getting it from shareholders (shareholders' equity).

**Figure 9.1: Pro forma of Balance Sheet**

**Pro-Forma Balance Sheet**

**XYZ Corporation**

For 2003 to 2006

(all numbers in $000)

| **ASSETS** | **2003** | **2004** | **2005** | **2006** |
|---|---|---|---|---|
| **Current Assets** | | | | |
| Cash | $54 | $57 | $59 | $64 |
| Net accounts receivable | $367 | $396 | $426 | $435 |
| Inventory | $177 | $191 | $203 | $205 |
| Temporary investment | $12 | $12 | $12 | $12 |
| Prepaid expenses | $2 | $2 | $2 | $2 |
| **Total Current Assets** | $612 | $658 | $702 | $718 |
| **Fixed Assets** | | | | |
| Long-term investments | $42 | $43 | $43 | $46 |
| Land | $656 | $656 | $684 | $727 |
| Buildings (net of depreciation) | $903 | $928 | $983 | $1,021 |
| Plant & equipment (net) | $608 | $631 | $642 | $654 |
| Furniture & fixtures (net) | $61 | $65 | $68 | $72 |
| **Total Net Fixed Assets** | $2,270 | $2,323 | $2,420 | $2,520 |
| **TOTAL ASSETS** | $2,882 | $2,981 | $3,122 | $3,238 |
| **LIABILITIES** | | | | |
| **Current Liabilities** | | | | |
| Accounts payable | $246 | $252 | $258 | $277 |
| Short-term notes | $24 | $25 | $26 | $28 |
| Current portion of long-term notes | $14 | $14 | $14 | $15 |
| Accruals & other payables | $14 | $14 | $14 | $14 |
| **Total Current Liabilities** | $298 | $305 | $312 | $334 |
| **Long-term Liabilities** | | | | |
| Mortgage | $897 | $931 | $978 | $1,021 |
| Other long-term liabilities | $443 | $485 | $527 | $576 |
| **Total Long-term Liabilities** | $1,340 | $1,416 | $1,505 | $1,597 |

### 9.1.2 Income Statement

The Income Statement shows a firm's revenues and expenses, and taxes associated with those expenses for some financial period. Where the Balance Sheet may be thought of in terms of the "left–right" orientation previously discussed, the income statement would be thought of in "top–down" terms.
A basic overview of income statement items shows how a manufacturing company might present an income statement. Income statements for other companies may appear to be slightly different, but in general the construction would be the same.

Figure 9.2: Pro forma of Income Statement

**[Company Name]** — **Income Statement**

For the Years Ending [Dec 31, 2008 and Dec 31, 2007]

| Revenue | 2008 | 2007 |
|---|---|---|
| Gross sales | 181,683 | |
| (Less sales returns and allowances) | (10,000) | |
| **Net Sales** | **171,683** | - |
| **Cost of Goods Sold** | | |
| Beginning inventory | | |
| Goods purchased or manufactured | 130,028 | |
| Total Goods Available | 130,028 | - |
| (Less ending inventory) | | |
| Cost of Goods Sold | 130,028 | - |
| **Gross Profit (Loss)** | **41,655** | - |
| **Expenses** | | |
| Advertising | | |
| Bad debt | | |
| Commissions | | |
| Depreciation | 16,616 | |
| Employee benefits | | |
| Furniture and equipment | | |
| Insurance | | |
| Maintenance and repairs | | |
| Office supplies | | |
| Payroll taxes | | |
| Rent | | |
| Research and development | | |
| Salaries and wages | | |
| Software | | |
| Travel | | |
| Utilities | | |
| Web hosting and domains | | |
| Other | 16,192 | |
| Total Operating Expenses | 32,808 | - |
| **Operating Income (Loss)** | **8,847** | - |
| Non-operating revenues, expenses, gains, losses | 12,762 | |
| (Less interest expense) | (6,113) | |
| Income Before Taxes | 15,496 | - |
| (Less income tax expense) | (1,069) | |
| **Income From Continuing Operations** | **14,427** | - |
| **Below-the-Line Items** | | |
| Income from discontinued operations | | |
| Extraordinary items | | |
| Cumulative effect of accounting changes | | |
| **Net Income** | **14,427** | - |

An important concept in understanding the income statement is Earnings Per Share (EPS). The EPS for a company is net income divided by the number of shares of common stock outstanding. It represents the bottom line for a company.

Companies continually make decisions on how their bottom line will be impacted since shareholders in the company are concerned with how management decisions affect individual shareholder position.

### 9.1.3 Cash Flow Statement

Cash Flow Analysis is useful for short-run planning. A historical analysis of cash flows provides insight to prepare reliable cash flow projections for the immediate future & make suitable arrangements. Cash Flow statement shows inflow – sources of cash (i.e. positive cash flow) and outflow - uses of cash (i.e. negative cash flows) during the period and the difference being 'Net Cash Flow'. This statement analyses changes in non-current accounts as well as current accounts (other than cash) to determine the flow of cash.

*Task*

Suppose you are the accountant of XYZ firm dealing in furniture manufacturing and sale. Draw a fictitious cash flow statement and income statement for your company. (Write the contents only, no need to write the figures).

Statement of changes in cash position is prepared recording only inflows and outflows of cash, reflecting the net change during the period. Cash received minus cash paid during a period is the cash balance at the end of the period. If the net change in cash position has to be found out from the profit and loss account, comparative balance sheets, adjustments for the non-cash items should be made.

**Types of Cash Flow**

The flow or movement of cash may be of two types, namely, actual flow of cash and notional flow of cash.

*Actual Flow of Cash*

There may be actual or direct flow of cash 'in' and 'out' of the business under the following circumstances:

a. ***Actual inflow of Cash:*** This transaction results in the actual inflow of cash into the business. Similarly, there is inflow of cash when debentures are issued for cash, loans raised in cash, sale of fixed assets for cash, dividends received in cash, etc.

*Example:* Issue of shares for cash:

Cash a/c Dr

To Share Capital a/c

b. ***Actual outflow of Cash:*** This transaction results in the actual outflow of cash from the business. Similarly, there is outflow of cash on repayment of loans, redemption of preference shares or debentures, payment of taxes, dividend, etc. in cash.

*Example:* Purchase of Machinery for cash. Machinery a/c Dr.

To Cash

### *Notional Cash Flow*

The indirect movement of cash 'in' and 'out' of the business is referred to as 'notional flow of cash' which may take place under the following circumstances:

a. ***Notional inflow of cash:*** Notional inflow of cash takes place whenever a transaction results in increasing current liabilities or decreasing current assets.

*Example:* Purchase of goods on credit. Purchases A/c Dr.
To Creditors A/c

This transaction results in increasing creditors to the extent of credit purchases made. Though there is no actual inflow of cash, goods purchased on credit can be converted into cash. Hence, there is notional inflow of cash

b. ***Notional outflow of cash:*** Notional outflow of cash takes place whenever a transaction results in decreasing current liabilities or increasing current assets.

*Example:* Sale of goods on credits:

Debtors A/c Dr.

To Credit Sales A/c

This transaction results in increasing book-debts/Bills Receivable to the extent of credit sale made. Though there is no actual outflow of cash, goods sold on credit would have been sold for cash and would cost the business in terms of materials, labor and overheads. Hence, there is notional outflow of cash i.e. it may be considered as loan advanced to customers. Similarly, when there is decrease in current liabilities, it may be due to part settlement of these dues. Hence, such decrease in a current liability is treated as notional outflow of cash.

### 9.1.4 Profit and Loss Account

The profit and loss account shows the profit that the business makes. This is also known as the "Trading, Profit and Loss Account". It is made up of the following components:

- Sales
- Direct Costs
- Gross Profit
- Indirect Costs
- Net Profit
- Taxation
- Director's Drawings
- Investment in Business

The profit and loss account is opened by recording the gross profit (on credit side) or gross loss (debit side). For earning net profit a businessman has to incur many more expenses in addition to the direct expenses. Those expenses are deducted from profit (or added to gross loss), the resultant figure will be net profit or net loss. The expenses which are recorded in profit and loss account are ailed 'indirect expenses'.

### Preparation of Projected Financial Statements

Projected financial statements provide assumptions about a given company's financial situation in the future, whether it is an annual or quarterly projection. Preparing projected financial statements is a lengthy task, as it requires analysis of the company's finances, reading previous budgets and income statements, and examining the company's current financial situation to make assumptions about the business' financial potential. The process is the same for smaller, sole-proprietor businesses and well-established corporations.

When preparing the projected financial statements, there are some common pitfalls that need to be avoided:

- Don't prepare an over ambitious or unrealistic projection. It is better to prepare a conservative projection and be able to exceed your plan than it is to prepare something unrealistic and have to explain to investors why you were unable to achieve projected results.
- Don't be creative in developing your presentation of the projections. Use prescribed industry standard formats that meet Generally Accepted Accounting Principles.
- Be sensitive to the amount of detail that is presented and avoid the use of technical terms. Give the reader the proper amount of detail to make a decision.
- Facts and extensive research should back all assumptions used in the projections. This makes your projections more believable.
- Fully disclose information on all issues relating to contracts, ownership, offering price, stock options, warrants, related party issues, risks and uncertainties. Don't mislead the reader.

## 9.2 Managing Cash Flows

Maintaining a healthy cash flow is one of the most important aspects of running any small business. Key to success in this area is the management of inflows and outflows, which can be monitored using a financial software package.

### 9.2.1 Analyzing Cash Flow

Before you can begin to improve your cash flow management, you should obtain a detailed view of how your company manages cash. Look at areas including accounts receivable, accounts payable, credit terms and inventory.

If you find that there is an imbalance between money coming in and money going out – for example, if you have more unpaid purchases than sales coming due - this may result in a cash flow problem during the next month.

Once you have analyzed cash flow, you can begin to look for ways to improve cash flow management. In very basic terms, your goal is to speed up inflows and delay outflows as long as possible while still meeting all of your financial obligations.

### 9.2.2 Improving Accounts Receivable

Accounts receivable make up a large proportion of the cash coming into a small business, so keeping a close eye on them is vital to improve cash flow. Collecting money may not always be easy, but there are steps you can take to ensure you don't find yourself with a cash flow crisis due to slow payments.

***Stay on top of payments:*** Awareness of when customers' payments are coming due is very important and you can use your financial software to stay ahead of the game. Generating an accounts receivable aging report to track the habits of your customers over time will help identify which ones are likely to need to be prompted to pay.

***Make it easy for them to pay:*** Similarly, make sure you have been prompt in your issuing of invoices. If customers regularly receive their invoices in a timely manner, you are more likely to receive your money quickly. Ensure that customers know exactly when payment is due by indicating it clearly on the invoice. Give them easy and fast options for payments, such as fax and online methods. Many owners have successfully accelerated accounts receivable collections by offering discounts to those who pay early.

***Institute a credit policy:*** When and how do you make credit decisions about your customers? The sooner you do so, the faster you can bill them – and the faster you will get paid. Try to anticipate customers' credit needs before they ask.

For new customers, you will probably want to require a credit check and several references, a process which can be initiated ahead of their first order to speed things up. You could also consider asking for a small deposit on new orders, to make sure you have some cash on hand.

***Institute a collections policy:*** Your policy should indicate when you begin efforts to collect on a payment. Many business owners stick to a formal reminder system that takes on a more serious tone as the lateness increases and eventually involves an attorney and, ultimately, a collection agency.

### 9.2.3 Accounts Payable

It is to your advantage to keep cash in hand for as long as possible, which means carefully monitoring your outflows.

***Manage your due dates:*** Pay an invoice on the day it is due to keep consistent cash flow. Paying early can leave you short of cash at a crucial time. You can organize your outflows by arranging electronic funds transfers with your financial software.

***Extend your payment times:*** Speak with your vendors and see if you can work out an agreement so that payments are spread out and payment times are extended as long as possible. Also consider ways of strengthening your relationships with vendors in case you need to delay payment in the future. Remember that those who offer the lowest prices may not necessarily be the most flexible – take this into consideration when choosing who to work with.

### 9.2.4 Improving Inventory Management

Inventory management basically involves monitoring your daily sales activity and making sure your on-hand inventory reflects these patterns. You can use your retail management software help forecast how demand will ebb and flow throughout the coming months. A common dictum is that 80 percent of your revenue comes from 20 percent of your inventory. By figuring out which of your products this applies to, you will be able to make informed decisions about how much of a certain item to order - and when. Inventory that is not being transformed into cash is useless. If you have out-of-date inventory, the best strategy is to sell it for the best price you can. Many small business experts believe that healthy cash flow is truly the secret to success. Once you have a handle on how to balance your inflows and outflows, you may find you agree.

## 9.3 Applications of Business Ratios

A tool used by individuals to conduct a quantitative analysis of information in a company's financial statements. Ratios are calculated from current year numbers and are then compared to previous years, other companies, the industry, or even the economy to judge the performance of the company. Ratio analysis is predominately used by proponents of fundamental analysis.

There are many ratios that can be calculated from the financial statements pertaining to a company's performance, activity, financing and liquidity. Some common ratios include the price-earnings ratio, debt-equity ratio, earnings per share, asset turnover and working capital.

### 9.3.1 Importance of Business Ratios

Business ratios are used to assess the performance of the firm in the following aspects:

1. Trend analysis
2. Inter-firm comparison

3. Operating efficiency analysis
4. Long-term financial viability
5. Reveals strength and weakness of business
6. Overall profitability of the business

### 9.3.2 Financial Ratios

Financial ratios are the indicators of the financial well being of a business plan. These are used as tools to determine the financial viability of a business plan. Financial ratios are corroborated with other facts before any judgmental action is taken. These are calculated by using the information available in historical and/or forecasted balance sheets and other financial statements. Ratios are commonly used for trend analysis — tracking of financial figures over a

period of time. Since the venture has no historical balance sheet or past performances, these are evaluated on the basis of the projected balance sheet and other forecasted documents. These allow comparison of the projected performance with similar industries or similar businesses. Financial ratios fall into four general categories. These can be classified as:

**Liquidity Ratios**

Liquidity ratios are indicators of the venture's capability to meet short-term financial obligations. Short term obligations imply cash demand to be met in next 12 months. Maximum use of this ratio is made by the providers of the short term credit to the ventures. Three of the most common liquidity ratios are (a) current ratio or working capital ratio, (b) quick ratio or acid test ratio, and, (c) cash ratio.

The current ratio is the ratio of current assets to current liabilities:

Current Ratio =Current Assets Current Liabilities

Providers of short-term creditors prefer high current ratio as it reduces their risk of non-payment. It signifies venture liquidity. Contrarily, shareholders are known to prefer low current ratio as it implies liquidity deployment to create more wealth. Values for the current ratio vary from industry to industry and venture to venture in same industry. Ventures exposed to cyclical upswing and downturns maintain high incidence of current ratio to remain liquid during downturns. A current ratio of 1 or more than 1 is considered acceptable for most of the industries. Any opinion should not be formed exclusively on the basis of the current ratio of the venture. Many other factors need to be considered before any conclusion can be drawn. A high current ratio of more than 2, indicates excessive current assets in the form of inventory and under deployed financial resources. A low ratio of less than 1, indicates that venture may have difficulty in meeting short-term financial obligations.

The quick or the acid test ratio is the ratio of current assets — inventory to current liabilities:

The component of inventory in current ratio may consist of certain inputs or raw materials that may not be possible to be liquidated at short notice. The liquidation value may also be uncertain. The quick ratio is a refinement on the current ratio as it excludes inventory from the current assets of the venture. Such exclusion, removes the ambiguity created in the liquidity position of the venture by uncertain inventory components.

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

The current assets that are used to calculate quick ratio (acid test ratio) include cash, accounts receivable and notes receivable.

Cash ratio is one of the most conservative of all liquidity ratios. It is an extreme refinement on quick ratio. It excludes all current assets of the venture except the absolutely liquid assets available. These consist of cash in hand or bank and other cash equivalents.

***Cash Ratio***

The cash ratio is ratio of cash + cash equivalent securities to current liabilities of the venture.

It is the most robust indicator of venture ability to meet current liabilities. Higher cash ratio could be a cause of concern as it represents the situation in which the resources may not be optimally deployed for creation of wealth.

**Profitability Ratios**

Profitability ratios are indicators of measures of the success of the venture in generating profits for the entrepreneur. A wide range of ratios is used to measure profitability. We shall be concentrating on the three major indicators. These consist of, (a) gross profit margin, (b) return on assets, and, (c) return on equity or return on investment (ROI).

The gross profit margin indicates the gross profits earned by the venture on the sales. It accounts for the cost of the goods sold, without including other costs.

$$\text{Gross Profit Margin} = \frac{\text{Sales} - \text{Cost of Goods Sold}}{\text{Sales}}$$

Lower gross profit margin ratio indicates that earnings that are needed to pay other costs, including fixed costs are low. It is also an indicator of the venture inability to control its production cost. A higher gross profit margin indicates production efficiency and venture capability to compete during intense rivalry and in markets characterised by low entry barriers.

Return on assets is an indicator of determining venture efficiency in utilizing assets to create wealth/profit.

$$\text{Return of Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Lower return on assets is an indicator that the venture earnings are low for the amount of assets deployed. It can be used to determine the venture efficiency *viz-a-viz* industry firms.

Return on equity or return on investment (ROI) is one of the basic measures for determination of the profits by the equity holder on the investments. It is derived by determining the net income generated by the venture on the equity.

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Stockholder's Equity}}$$

## Operations Ratios

These include the ratios used to measure internal operational efficiency of the venture. Any isolative interpretation derived from these will largely be unproductive, sometimes even misleading. These should be viewed in conjunction with other ratios and industry environment. We shall be focusing only on three types of operations ratios that shall include, (a) accounts receivable turnover ratio, (b) inventory turnover ratio, and (c) average days payable ratio.

Accounts Receivables Turnover Ratio =

Net Credit Sales Average Accounts Receivable

It measures how liquid accounts receivable are for the complete year. Average accounts receivable is the average of the opening and closing balances for all the accounts receivables. It informs number of rotation of the receivables during one financial year. It is generally evaluated as being either positive or negative in comparison with the industry firms of similar types. Higher turnover rate is indicator of prompt payment by the customers and resulting in less investment in accounts receivables.

Inventory turnover ratio is determined by cost of goods sold to average inventory.

, it is calculated as:

It is also possible to be calculated as:

Sales Inventory

Cost of Goods Sold Average Inventory

The first method of calculation is more frequently used, compared to cost of goods sold and average inventory. The second method is used as sales are recorded at market value, while inventories are recorded at value of procurement or cost. Use of average inventory instead of ending inventory allows reduction of seasonal factors that may distort the correct ratio. It measures the number of times inventory has been turned over in a financial year. It also indicates the inventory quality in terms of its obsolescence and efficiency of inventory management practices adopted by the venture.

High inventory turnover ratio is generally considered a positive sign of the venture efficiency. If the venture has deployed significant resources in inventory, it is all the more important to keep a track of this ratio as it helps in formulating proper financial plans. If the venture is turning the inventory slowly, it would impact the cash flow of the venture. As with other ratios, it needs to be compared with industry ratios. Another interpretation is, while low turnover indicates poor sales and maintenance of extra inventory, affecting the blockage of funds and increasing inventory holding cost and unproductive investments, a high ratio could be indicative of either strong sales or improper purchases.

Average days payable ratio measures the average days, the venture takes to pay its suppliers. Average Days Payable = Days in the period × Average accounts payable Purchases on credit The "Days in the Period" denotes the number of days in the measurement period, which normally consists of 365 days (One Financial Year). "Average Accounts Payable" is arrived at by taking into consideration the opening and closing balances of accounts payable for the measurement period. If accounts payable period of the venture is longer than the collection period, it may be indicative of improper payment procedures or maintenance of poor cash position. It may affect the credit rating of the venture. Contrarily, if the accounts payable period of the venture is shorter, it indicates the venture is unable to maximize the benefits of purchases on credit, though it can meet suppliers' payment terms.

## Leverage Ratios

These ratios measure financial leverage of the venture to meet financial obligations it has created. Additionally, these indicate the capital structure of the venture and resultant strength and weaknesses. The most significant ones focus on debt, equity, assets and interest features of the venture. These also inform venture's mix of operating costs (fixed and the variable), and how changes in output will be affecting operating income. Ventures with relatively higher fixed costs, having achieved the breakeven point (BEP) post higher amount of operating revenue when output is increased compared to the ventures that have higher variable cost. It is brought about by the fact that costs have already been

incurred and after achieving the break even point any increase in sales transfers to the operating income. Contrarily, in the ventures with high variable costs, additional sales do not impart any such benefit because of higher incidence of
variable cost in the output. We shall be considering three types of leverage ratios and their implications. These include (a) debt-to-equity ratio, (b) degree of combined leverage1 and,
(c) degree of operating leverage.

Debt to equity ratio is a measure of venture's financial leverage. It is arrived at by dividing total liabilities of the venture by the equity. It informs the proportion of equity and debt in the capital structure of the venture.

Debt to Equity Ratio =

Total Liabilities Equity

A further precision is possible if only interest bearing, long-term debt is used instead of total liabilities. High debt/equity ratio generally implies venture financing by debt and higher interest burden that can affect the profitability in the event of downturn. High debt/equity ratio also indicates greater control by the entrepreneur. Debt-equity ratio also varies from industry to industry. Capital-intensive industries have higher incidence of debt-equity ratio relative to less capital-intensive industries.

Degree of combined leverage ratio summarizes the combined effect the Degree of Operating Leverage (DOL), and the degree of financial leverage has on Earnings Per Share (EPS), given a particular change in sales. This ratio can be used to help determine the most optimal level of financial and operational leverage to use in any firm. Additionally, it indicates the effect this combination or variation in this combination has on venture earnings.

Degree of Combined Leverage Ratio =% Change Earning Per Share (EPS)

% Changes in Sales

One interpretation of the high level of combined leverage is higher amount of risk associated with the venture as high leverage may imply higher fixed costs.

Degree of operating leverage indicates the effect a particular amount of operating leverage has on venture's Profit Before Interest and Taxes (PBIT).

*Caution* It uses higher share of fixed costs to variable costs in venture operations.

Higher level of operating leverage will impart higher amount of volatility to venture profits before interest and tax relative to the changes in the sales.

Degree of Operating Leverage =

% Change in Profit Before Interest & Taxes

% Changes in Sales

This ratio also assists in understanding the effect a specific level of operating leverage exerts on earning potential of the venture. This is possible to be used as a beacon for arriving at optimum level of operating leverage so that profit before interest and taxes may be maximized.

## 9.4 of Finance: Debt and Equity

In order to prepare an estimation of capital requirement, various types of expenditure that should be taken into account are promotion and formation expenses, expenses for purchasing fixed assets, expenses for expansion of business, expenses for current assets and cost of raising capital, etc.

1. ***Creation of internal resources:*** This source, though mobilized in large sized concerns, is little used in small establishments. This source comprises provision for taxation, provision for depreciation and reserve fund. The newly started enterprises cannot possibly use this source.
2. ***Taking public deposits:*** The large undertakings, with the object of procuring middle-term capital, take up term-deposit from the public. The public are given deposit certificate. Though, it is one of the main sources of financing for established concerns, it is not at all possible to take up this opportunity for new establishments.
3. ***Financing by commercial banks:*** The commercial banks have nowadays met the short-term financial requirements with the supply of finance to the companies. The commercial banks have been supplying short-term capital through discounting of bill, cash credit and advance payment.
4. ***Financing by financial institutions***: Examples includes IFC, IDBI, ICICI, SFC, SIDBI, etc.
5. ***Financing by other investment institutions:*** A number of investment institutions have been developed in both public and private sector to supply finance to the new enterprises like LIC, GIC, Tata Investment Trust, etc.
6. ***Personal finance:*** In case of starting a new venture, the entrepreneur provides himself for supplying capital by investing his own or family savings. These include cash and personal assets that can be converted into cash. In most cases, the small-scale businesses and family businesses are developed by entrepreneur’s own capital. For this, an entrepreneur might have set himself some months or years ago and must have already prepared financially for it. But no large-scale enterprise can be developed by financing of entrepreneur’s personal capital.
7. ***Government grants:*** In specific section, there is provision for grants from government to be financed to new enterprises. Government usually provides adequate finance as grant and subsidy to those cases which are recognised as priority sectors. Thus, by means of grant and subsidy from government, capital is supplied to the entrepreneurs.
8. ***Others:*** Apart from the various sources stated above, the indigenous money-lenders or bankers supply capital on conditional basis to the new entrepreneur. This may be procured from venture capital firm also. Capital may be provided by lease financing.

### 9.4.1 Equity Financing

If the new venture is of company form of organization, then it can issue shares to public subject to the approval of the Company Law Board and thereby procure necessary capital for the enterprise. The share represents ownership. The value of a share is not very much.

*So, persons desirous of becoming owner of an enterprise can purchase in their names. The capital raised by sale of shares is called the share capital.*

Whenever an entrepreneur intends to finance from market, equity financing is a common method. Equity means capital which is invested by the owner or owners in the business and on permanent basis, it is a risk-full investment. Equity or ownership capital is the capital supplied by owner in single ownership business or by owners in partnership business. And in case of private companies, the entrepreneurs and his relatives and friends supply capital and in case of public companies, capital is procured by selling shares to the public. This equity capital or ownership capital is supplied by equity shareholders. The various methods of equity financing are:

*Entrepreneur's personal savings and assets.*

- Loans taken from relatives and friends.
- Personal loan taken from indigenous money lender.
- Financing through sale of shares.
- Ordinary or equity shares.

### 9.4.2 Debt Financing

In order to raise more capital, the enterprise procures capital by sale of debentures. A debenture is an acknowledgment of a debt under the seal of an organization. Those, who purchase debentures are called the debenture-holders. The debenture-holders cannot become the owners of the enterprise but be recognized as its creditors.

Debt financing refers to such scheme of financing by which capital is raised through the issue of bonds, debentures and mortgages. There are several important ways to obtain debt financing, such as money raised through the sale of bonds, debentures and commercial papers. Small enterprises have fewer choices than large firms for obtaining debt financing. These enterprises are limited by their size. They are local enterprises with small inventories or markets that provide few assets for collateralizing loans. Small entrepreneurial ventures created with the intent to grow are still in their development stages and are risky. They have not yet established their level of performance or asset strength to underwrite substantial debt.

## Marketing management

Marketing plays a major role in our daily lives. Each day is filled with consuming products made available by marketers. We pay for marketing each time we buy a product. In fact, half of every rupee spent at the retail level goes to cover the marketing costs. Marketing is responsible for satisfying customers, which, in turn, increases our standard of living and quality of life.

The strategy for marketing goods produced by entrepreneur must, therefore, be ultimately beneficial to the consumer. No consumer is going to purchase goods unless he is satisfied with their quality and wherever necessary by an efficient after-sales service. This unit will help to understand the various aspects of marketing management.

### 10.1 Selecting the Target Market

Target market represents a group of individuals who have similar needs, perceptions and interests. They show inclination towards similar brands and respond equally to market fluctuations. Individuals who think on the same lines and have similar preferences form the target audience.

Target market includes individuals who have almost similar expectations from the organizations or marketers.

Obese individuals all across the globe look forward to cutting down their calorie intake. Marketers understood their need and came up with Kellogg's K Special which promises to reduce weight in just two weeks. The target market for Kellogg's K Special diet would include obese individuals.

Individuals who sweat more would be more interested in buying perfumes and deodorants with a strong and lasting fragrance.

The selection of a target market is a very important decision for a firm as it requires significant effort and commitment to implement an appropriate and targeted marketing mix.

## 10.2 Market Strategy

Small Businesses can gain a competitive advantage over larger competitors by tailoring their products or services to meet the demands of the individual customer. This tailoring can be done through the means of the product/service offered, price, promotion, and distribution. The above are known as the marketing mix. Another advantage is that small businesses offer a more personalized interaction with the customer.

First of all, a marketing strategy that you should take advantage of both offline and online is networking. This is probably the single most important strategy you can look into. As a small business, you will find that one of your first and most important hurdles is simply getting people to know that you exist. If people don't know you've started a small business and that you have amazing widgets or services to sell, they're not going to ask to buy those widgets or hire you for those services, regardless of how wonderful and amazing they might be. So your first job as a small business entrepreneur will be to get the word out.

Beyond online and offline networking, another avenue for marketing in both venues is promoting your business through ads. In the real world, this can be done through print and flyer ads, stationary, vehicle tags, and window displays, while on the internet, you can pursue things like pay per click marketing.

A set of strategies found quite commonly in smaller businesses are growth strategies. One way to look at strategies to grow your business is through the way you will use products and markets or customers:

- ***Current product/current market:*** Market penetration is a strategy of increasing your share of existing markets. You might achieve this by raising customers' awareness of your products and services or finding new customers. For further information on planning effective marketing communications see the Related Items section below for a link to the Factsheet: Planning marketing communications.
- ***Current product/new market:*** Market development is a strategy of finding and entering new markets with your current product or service range. The new market could be a new region, a new country or a new segment of the market. For further information on selecting and entering new markets see the Related Items section below for a link to the Factsheet: Entering new markets.
- ***New product/current market:*** Product development is a strategy for enhancing benefits you deliver to customers by improving your existing products and services or developing new ones.
- ***New product/new market:*** Diversification is a strategy that usually carries high costs and high risks. It often requires firms to adopt new ways of doing business and so has consequences far beyond simply offering new products/services in a new market. It is therefore usually a strategy to be adopted when other options are not feasible.
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## 10.3 Pricing Strategies and Marketing of Services

Pricing is an important function of marketing. Price is the exchange value of a product. It is the amount of money or other products needed to acquire a product. Barter is the exchange of products for other products. When developing a marketing program, an organization can compete on the basis of price and non-price factors.

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### 10.3.1 Pricing Method

1. ***Mark up Pricing:*** The most elementary pricing method is to add a standard markup to the product's cost. Construction companies submit job bids by estimating the total project cost and adding a standard markup of their costs.

Fixed Cost ` 300,000 Expected Unit sales ` 50,000
The manufacturer's unit cost is given by Unit Cost = VC + (FC/Unit Sales)
= ` 10 + (300,000/50,000) = ` 16

Now assume the manufacturer wants to earn a 20% markup on sales. The manufacturer's markup price is given by:

$$\text{Markup Price} = \frac{\text{Unit Cost}}{(1 - \text{Desired return on sales})}$$

= 16/(1–.02) = ` 20

The manufacturer would charge dealers ` 20 per toaster and make a profit of ` 4 per unit.

Markup varies considerably among different goods. Markups are generally higher on seasonal items (to cover the risk of not selling), specialty items, slow moving items, items with high storage and handling cost.

2. ***Target-Return Pricing:*** The firm determines the price that would yield its target rate of return on investment (ROI). Target pricing is used by General Motors, which prices its automobiles to achieve a 15 to 20% ROI.

$$\text{Target-Return Price} = \text{Unit Cost} + \frac{\text{Desired return} \times \text{invested capital}}{\text{Unit sales}}$$

3. ***Perceived –Value Pricing:*** An increasing number of companies are basing their price on the product's perceived value. They see the buyer's perception of value, not the seller's cost, as the key to pricing. They use the non-price variables in the marketing mix to build up perceived value in the buyers' minds. Price is set to capture the perceived value.

4. ***Value Pricing:*** In recent years, several companies have adopted value pricing in which they charge a fairly low price for a high-quality offering. Value pricing says that the price should represent a high-value offer to consumers.

5. ***Going rate pricing:*** In going-rate pricing, the firm pays less attention to its own costs or demand and bases its price largely on competitor's price.

6. ***Sealed-bid pricing:*** Competition-oriented pricing is common where firms submit sealed bids for jobs. The firm bases its price on expectations of how competitors will price rather than on a rigid relation to the firm's costs or demand. The firm wants to win the contract, and winning normally requires submitting a lower price than competitors. At the same time, the firm cannot set its price below cost without worsening its position.

### 10.3.2 Various Strategies for Pricing

Following are few of the strategies for pricing a product:

#### Premium Pricing

Use a high price where there is a unique brand. This approach is used where a substantial competitive advantage exists and the marketer is safe in the knowledge that they can charge a relatively higher price. Such high prices are charged for luxuries such as Cunard Cruises, Savoy Hotel rooms, and first class air travel.

#### Penetration Pricing

The price charged for products and services is set artificially low in order to gain market share. Once this is achieved, the price is increased. This approach was used by France Telecom and Sky TV. These companies need to land grab large numbers of consumers to make it worth their while, so they offer free telephones or satellite dishes at discounted rates in order to get people to sign up for their services. Once there is a large number of subscribers prices gradually creep up. Taking Sky TV for example, or any cable or satellite company, when there is a premium movie or sporting event prices are at their highest – so they move from a penetration approach to more of a skimming/premium pricing approach.

#### Economy Pricing

This is a no frills low price. The costs of marketing and promoting a product are kept to a minimum. Supermarkets often have economy brands for soups, spaghetti, etc. Budget airlines are famous for keeping their overheads as low as possible and then giving the consumer a relatively lower price to fill an aircraft. The first few seats are sold at a very cheap price (almost a promotional price) and the middle majority are economy seats, with the highest price being paid for the last few seats on a flight (which would be a premium pricing strategy). During times of recession economy pricing sees more sales. However it is not the same as a value pricing approach which we come to shortly.

#### Price Skimming

Price skimming sees a company charge a higher price because it has a substantial competitive advantage. However, the advantage tends not to be sustainable. The high price attracts new competitors into the market, and the price inevitably falls due to increased supply.

Manufacturers of digital watches used a skimming approach in the 1970s. Once other manufacturers were tempted into the market and the watches were produced at a lower unit cost, other marketing strategies and pricing approaches are implemented. New products were developed and the market for watches gained a reputation for innovation.

#### Psychological Pricing

This approach is used when the marketer wants the consumer to respond on an emotional, rather than rational basis. For example Price Point Perspective (PPP) 0.99 Cents not 1 US Dollar. It's strange how consumers use price as an indicator of all sorts of factors, especially when they are in unfamiliar markets. Consumers might practice a decision avoidance approach when buying products in an unfamiliar setting, an example being when buying ice cream. What would you like, an ice cream at $0.75, $1.25 or $2.00? The choice is yours. Maybe you're entering an entirely new market. Let's say that you're buying a lawnmower for the first time and know nothing about garden equipment. Would you automatically by the cheapest? Would you buy the most expensive? Or, would you go for a lawnmower somewhere in the middle? Price therefore may be an indication of quality or benefits in unfamiliar markets.

## Product Line Pricing

Where there is a range of products or services the pricing reflects the benefits of parts of the range. For example car washes; a basic wash could be $2, a wash and wax $4 and the whole package for $6. Product line pricing seldom reflects the cost of making the product since it delivers a range of prices that a consumer perceives as being fair incrementally – over the range.

If you buy chocolate bars or potato chips (crisps) you expect to pay X for a single packet, although if you buy a family pack which is 5 times bigger, you expect to pay less than 5X the price. The cost of making and distributing large family packs of chocolate/chips could be far more expensive. It might benefit the manufacturer to sell them singly in terms of profit margin, although they price over the whole line. Profit is made on the range rather than single items.

## Optional Product Pricing

Companies will attempt to increase the amount customers spend once they start to buy. Optional 'extras' increase the overall price of the product or service. For example airlines will charge for optional extras such as guaranteeing a window seat or reserving a row of seats next to each other. Again budget airlines are prime users of this approach when they charge you extra for additional luggage or extra legroom.

## Captive Product Pricing

Where products have complements, companies will charge a premium price since the consumer has no choice. For example a razor manufacturer will charge a low price for the first plastic razor and recoup its margin (and more) from the sale of the blades that fit the razor. Another example is where printer manufacturers will sell you an inkjet printer at a low price. In this instance the inkjet company knows that once you run out of the consumable ink you need to buy more, and this tends to be relatively expensive. Again the cartridges are not interchangeable and you have no choice.

## Product Bundle Pricing

Here sellers combine several products in the same package. This also serves to move old stock. Blue-ray and videogames are often sold using the bundle approach once they reach the end of their product life cycle. You might also see product bundle pricing with the sale of items at auction, where an attractive item may be included in a lot with a box of less interesting things so that you must bid for the entire lot. It's a good way of moving slow selling products, and in a way is another form of promotional pricing.

### Promotional Pricing

Pricing to promote a product is a very common application. There are many examples of promotional pricing including approaches such as BOGOF (Buy One Get One Free), money off vouchers and discounts. Promotional pricing is often the subject of controversy. Many countries have laws which govern the amount of time that a product should be sold at its original higher price before it can be discounted. Sales are extravaganzas of promotional pricing!

### Geographical Pricing

Geographical pricing sees variations in price in different parts of the world. For example rarity value, or where shipping costs increase price. In some countries there is more tax on certain types of product which makes them more or less expensive, or legislation which limits how many products might be imported again raising price.

**Value Pricing**

This approach is used where external factors such as recession or increased competition force companies to provide value products and services to retain sales e.g. value meals at McDonalds and other fast-food restaurants. Value price means that you get great value for money i.e. the price that you pay makes you feel that you are getting a lot of product. In many ways it is similar to economy pricing. One must not make the mistake to think that there is added value in terms of the product or service. Reducing price does not generally increase value.

## 10.3.3 Services Marketing

Service industries are quite varied. The government sector, with its courts, employment services, hospitals, loan agencies, military services, police and fire departments, post office, regulatory agencies, and schools, is in the service business. The private non-profit sector, with its museums, charities, churches, colleges, foundations, and hospitals, is in the service business. A good part of the business sector, with its airlines, banks, computer-service bureaus, hotels, insurance companies, law firms, management-consulting firms, medical practices, motion-picture companies, plumbing-repair companies, and real-estate firms, is in the service business. Many workers in the manufacturing sector, such as the computer operators, accountants, and legal staff, are really service providers. In fact, they make up a “service factory” providing services to the “goods factory”. Not only are there traditional service businesses, but also new types keep popping up to serve the needs of a changing population.

Kotler (1996) defines service as an activity that one party offers another that is essential, intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. The four main characteristics of service are intangibility, inseparability, variability and perishability.

### Perishability

Perhaps of all the suggested special characteristics of service products, this is one of the most difficult to appreciate. *Why?* Services are highly perishable compared to physical products. But how could, for example, the services of say, an airline be considered to be more perishable than, say, fresh food and vegetable products?

The reason is that unlike most physical products, many services cannot be stored. For instance, if an airline does not sell all the seats on a particular flight, then those seats or rather the sales revenue of filling of them would have carried, has immediately and irreversibly gone.

### Intangibility

Physical products in the store are widely displayed for customers to see, feel, touch, weigh or sniff at before deciding whether or not to buy.

Comparing this with the choice of the service of say, an insurance policy. You cannot touch, see or smell the products before choosing, although clearly you can make some assessment based on past experience, word of mouth, or even the location and decor of the insurance office.

### Variability

In the production and marketing of physical products, companies have increasingly paid special attention to ensuring consistency in quality, feature, packaging, and so on. More often than not all customers can be sure that every bottle of Coke he/she buys, even in a life-time of purchases, will not vary. The provision of services, however, invariably includes a large measure of the "human element".

Indeed, with many services, we are purchasing nothing else but the skills of the suppliers. Because of this, it is often very difficult for both supplier and consumer to ensure a consistent "product" or quality of service.

### Inseparability

A key distinguishing feature of service marketing is that the service provision and provider are inseparable from the service consumption and consumer. For example, we cannot take a hotel room home for consumption; we must "consume" this service at the point of provision. Similarly, the hairdresser needs to be physically present for this service to be consumed.

This has implications both for channels of distribution and scale of operations.

## 10.4 Export Marketing

Export marketing means exporting goods to other countries of the world. It involves lengthy procedure and formalities. In export marketing, goods are sent abroad as per the procedures framed by the exporting country as well as by the importing country. Export marketing is more complicated to domestic marketing due to international restrictions, global competition, lengthy procedures and formalities and so on. Moreover, when a business crossed the borders of a nation, it becomes infinitely more complex. Along with this, export marketing offers ample opportunities for earning huge profits and valuable foreign exchange.

According to B. S. Rathor, "Export marketing includes the management of marketing activities for products which cross the national boundaries of a country".

Export marketing has wider economic significance as it offers various advantages to the national economy. It promotes economic/business/industrial development, to earn foreign exchange and ensures optimum utilization of available resources. Every country takes various policy initiatives for promoting exports and for meaningful participation in global marketing. Global business is a reality and every country has to participate in it for mutual benefits.

Every country has to open up its markets to other countries and also try to enter in the markets of other countries in the best possible manner. This is a normal rule which every country has to follow under the present global marketing environment. In the absence of such participation in global marketing, the process of economic development of the country comes in danger.

*Caution* Target market selection is a key part of marketing strategy and typically involves significant analysis, discussion and review throughout the firm.

Target marketing can be a particularly valuable tool for small businesses, which often lack the resources to appeal to large aggregate markets or to maintain a wide range of differentiated products for varied markets. Target marketing allows a small business to develop a product and a marketing mix that fit a relatively homogenous part of the total market. By focusing its resources on a specific customer base in this way, a small business may be able to carve out a market niche that it can serve better than its larger competitors.

Identifying specific target markets – and then delivering products and promotions that ultimately maximize the profit potential of those targeted markets – is the primary function of marketing management for many smaller companies.

*Example:* A manufacturer of fishing equipment would not randomly market its product to the entire U.S. population. Instead, it would conduct market research, using such tools as demographic reports, market surveys, and trade shows, to determine which customers would be most likely to purchase what it offers. It could then spend its limited resources in an effort to persuade members of its target group(s) to buy. Advertisements and promotions could be tailored for each segment of the target market.

There are infinite ways to address the wants and needs of a target market. For example, product packaging can be designed in different sizes and colors, or the product itself can be altered to appeal to different personality types or age groups. Producers can also change the warranty or durability of the good or provide different levels of follow-up service. Other influences, such as distribution and sales methods, licensing strategies, and advertising media, also play an important role. It is the responsibility of the marketing manager to take all of these factors into account and to devise a cohesive marketing program that will appeal to the target customer.

Small business enterprises are also encouraged to continually examine their marketing efforts to make sure that they keep pace with changing business realities.

*Example:* Business start-ups typically accept any kind of legitimate business in order to pay the bills and establish themselves as a viable entity. But long after the start-up has blossomed into a solid member of the local business community, it may continue to rely on these early accounts rather than casting its net for more promising clients.

## Production Management

After drawing the marketing plan the next step is to formulate the production/operation plan. Production/Operation plan is the blue-print to run the production unit/operational activity of the business enterprise for optimum utilization of the resources. Like the marketing plan, even the operation/production should evolve from a strategic plan i.e. overall business plan. For example, if the strategic plan is expansion and growth the production/operation plan should also formulate plans for expansion of production/operation unit.

## 11.1 Production and Material Management

Production Management is the process of converting the input into output through a conversion process. The inputs are in the form of land, labor, raw material, machinery, capital and information (information is a new addition to the inputs after the growing importance of the service industry). Transformation takes place through machinery in manufacturing enterprises and through employee's skills in a service enterprise.

The various key decisions that are to be taken in an operational/production plan include:

1. Which location would have optimum strategic advantage in terms of vicinity to the raw material and market, availability of labour and power, subsidies and tax holidays (Plant Location)?
2. What would be the size operation?
3. What would be the layout?
4. What would be the machines and equipment required for running the production/operation unit?
5. What should be the optimum plant capacity?
6. What should be the production/operation schedules?
7. How would the supply chain be managed?
8. What would be the optimum inventory level?
9. What would be the storage, distribution and sales needs?
10. What would be the requirements for administration like housekeeping, rent insurance, etc.?
11. How would the health and safety measures be met?
12. How would the quality standards be maintained?
13. Whether and how the company would utilize TQM and Kaizen?
14. How would ISO standards be met and certificates obtained?
15. What kind of raw-materials, work-in-progress and finished goods stocks would be maintained?
16. How would the operational plan be executed?

### 11.1.1 Capacity Planning

Capacity planning is the productive capability of a facility. The operations manager has to plan the capacity in such a manner that the production/operation has some degree of flexibility of expansion or reduction, depending on the market demand.

Capacity planning should be done keeping following things in mind:

- Flexibility of production/operation
- Cost of maintaining capacity
- Organization's vision and objectives
- Assessment of existing capacity
- Forecasting capacity needs based on organizational objectives

A hospital's capacity is determined by the number of services it can offer and number of patients it can serve, number of wards it can have, number of emergency cases it can handle at a time etc.

An educational institution's capacity is determined by the number of students who can study in classrooms, the number of specialization's that can be offered, the type and size of laboratory required, size of library, number of computers, number of teachers it can have, etc.

Capacity planning is required to meet both the present needs and future objectives of the organization. Suppose an entrepreneur starts a school upto Class V and develops a good brand image over a period of time then he should have enough capacity in terms of space to open higher classes. This is also dependent on the objective of the organization whether it wants to expand to the extent of school, graduate college or post graduate college.

Capacity planning can be divided into three types based on the time period of which the planning is done:

- Short-term capacity planning
- Medium-term capacity planning
- Long-term capacity planning

***Short-term capacity planning:*** Capacity planning from day-to-day, month-to-month up to a year is called short term capacity planning. In short term capacity planning fundamental capacity remains fixed but various short term adjustments are possible like stopping production of one shift (in case of reduction in demand), clearing inventories (in case of piling of inventories), hiring temporary employees (in case of seasonal rise in demand), layoff (in case of reduction in demand).

***Medium-term capacity planning:*** Medium term capacity planning is from one year to five years. Demand forecasting and the scheduling tasks/operation is important to meet forecasted demand. The strategies for medium term capacity planning involve material requirement, staff rotation machine scheduling.

***Long-term capacity planning:*** Long-term capacity planning is planning operation above 5 years. Major changes in capacity planning can be introduced. Expansion/contraction of the production/ operation and resources is possible. Demand forecasting and cost benefit analysis can help in making long-term decisions. A new face to the organization can be given in long-term capacity plans. Strategies for capacity contraction may involve sale of facilities, equipments, inventories, reduction in workforce. Strategies for expansion will include hiring, purchasing new facilities etc.

Capacity planning involves the following steps:

(a) Estimation of future needs

(b) Assessment of existing facilities

(c) Evaluating strategic alternatives for capacity

(d) Selecting the best alternative.

Following things need to be considered for capacity planning:

***Demand forecasting:*** Forecasting the demand for future will give an idea about the requirements of the production/operation.

***Aggregate Planning:*** Capacity planning is also dependent on overall aggregate planning of production/operation which involves decisions on material requirement planning, production scheduling and inventory management.

***Overall business strategy:*** Capacity planning is dependent on overall business strategy of expansion, contraction or constant production/operation. Though it is also dependent on market demands, finally the overall vision of the entrepreneur guides capacity planning.

***Availability of Manpower:*** Capacity planning is also dependent on the availability of manpower in that area (for expansion) and labor laws in relation to retrenchment, layoff, overtime etc.

Inventory Management

Continuous a production process may be, however effective production planning may be, there is always some room for unpredictable rise/fall in demand and/or in availability of raw material and/or lead-time between machines due to breakdowns on one machine. Therefore, inventory is to be managed. Inventory is managed at three levels:

- ***Raw material inventory:*** The stock of raw material is kept to meet the unforeseen changes in the market forces.

- ***Goods in process inventory:*** Inventory is managed at each level of work-in-progress.
- ***Finished goods inventory:*** Inventory is also managed of the final goods.

There are two types of inventories:

(a) ***Normal inventory:*** The inventory ensuring availability of materials at different stages in normal conditions is called normal inventory.

(b) ***Buffer inventory:*** The inventory ensuring availability of materials at the time of uncertainty is called buffer inventory.

But holding inventory involves cost and therefore inventory of only adequate amount should be maintained at each level. The following things should be kept in mind:

When to Order Inventory? (Reorder Point)

(a) ***Order Lead Time:*** Average time between placing order and receiving goods.

(b) ***Usage Rate:*** The average rate at which inventory is drawn over a period.

(c) ***Reorder Point:*** Level at which new order must be placed so that inventory is replenished before the stock runs out.

*Did u know?* The formula for reorder point is Reorder Point = Usage Rate * Lead Time

**Economic Order Quantity (EOQ): How Much to Order?**

The formula for EOQ is

$$Q = \sqrt{\frac{2CS}{I}}$$

Where C = Annual Usage of item in units S = Cost to place an order
I = Annual Carrying Cost Per Unit It is based on following assumptions:

(a) Ordering cost is constant

(b) Cost of carrying additional unit is constant

(c) There are no quantity discounts available

(d) Usage of consumption is constant

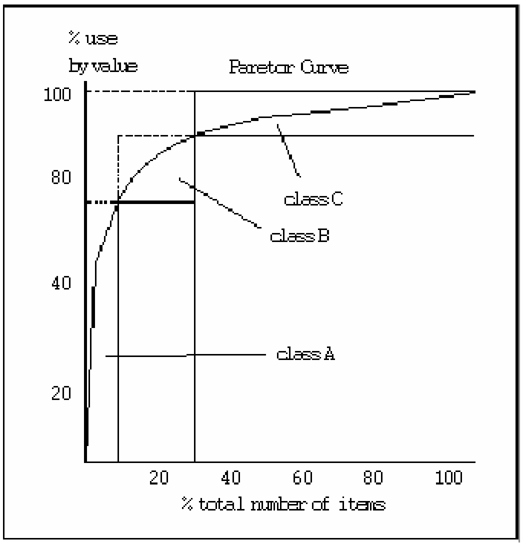
Cost of keeping large quantity = Carrying Cost Cost of placing an order = Order Processing Cost Thus, if the order is placed in large quantity, the order processing cost would be less but carrying cost would be high.

## 11.1.2 ABC Analysis

Pareto (ABC) Analysis can be used to classify stock groups. Stock items are ranked in descending order of usage value, and plotted on a cumulative frequency curve. It is common to find that 20% of items account for 80 % of usage value, the next 30% has 15% of value. The final 50% have 5% of value.

ABC or Pareto analysis points the way to where control efforts are best directed. Judgment is needed on critical inventory items or security matters that Pareto analysis in itself does not reveal.

Figure 11.1: Pareto Curve




## 11.2 Quality Management System

"Quality comes first," is the motto of highly competitive and growth oriented companies. Quality is an important function of production/operation management. The importance of quality has improved today. With the rising-competition and wide variety of products/services the consumers have become quality conscious and in the present times quality can decide the fortune of the enterprise.

Quality is to be maintained at all the stages of production. Quality is conformance to requirements (Crosby). Quality is product's or service's nature or feature that reflects capacity to satisfy, express or imply statement of need (Deming) or quality is product and service characteristics as offered by design, marketing, manufacturing, maintenance and service that meet customers' expectations (Fiegenbaum).

All the above definitions reflect that the quality is the perceived standard of the product or service. It is the performance of the product as per the commitment made by the producer to the consumer.

### ISO 9000

ISO is the acronym of International Organization for Standardization, headquartered at Geneva. ISO 9000 lays down uniform quality standards for design, installation and operation of quality management

systems agreed internationally.

*Notes* ISO 9000 standards consist of six parts, viz ISO 8402, ISO 9000, ISO 9001, ISO 9002, ISO 9003 and ISO 9004.

***ISO 8402*** deals with standardization of quality definitions.

***ISO 9000 Quality Management and Quality Assurance Standards*** – these give guidelines for selection.

***ISO 9001: Quality systems-model for quality assurance*** – sets standards for an organization whose business processes range from design and development, production, installation and servicing.

***ISO 9002: Quality systems* –** a quality model/standards for quality inspection and test.

***ISO 9003:*** Measurement and quality systems guidelines.

ISO 9000s series have 20 key elements of a firms' quality programme. They are:

1. Management Responsibility
2. Quality system
3. Contract review
4. Design and control
5. Document and data control
6. Purchasing
7. Control of supplied products
8. Product Identification and traceability
9. Process control
10. Inspection and testing
11. Control of inspection, measuring and test equipment
12. Inspection and test status
13. Control of non-conforming products
14. Corrective and preventive actions
15. Handling, storage, packaging, preserving and delivery
16. Control of quality records
17. Internal quality audits
18. Training
19. Servicing
20. Statistical Techniques.

Objectives of ISO 9000:

12 Achieve, maintain and seek to continuously improve quality.

13 Improve the quality of operations.

14 Provide confidence to management that quality requirements are fulfilled.

15 Provide confidence to customers that quality requirements are fulfilled.

**16 Benefits**

**17**

18 ISO 9000 is not statutory in nature, yet getting ISO 9000 certification provides a window for national/international acceptance on quality parameters. Moreover, complying with ISO 9000 makes an organization internally sound but it involves long bureaucratic procedure and is very costly affair.

*Did u know?* Though both are for quality, ISO is a sub-system of TQM. ISO 9000 defines minimum quality standards whereas TQM is a comprehensive approach.

## Total Quality Management (TQM)

According to Wake and Moti, 1999, "Total quality management is a management philosophy that focuses on perpetual enhancement through the prevention of problems and errors. It requires continuous monitoring and control process, performance and quality, the placing of customer at the summit of attention as well as a sense of awareness, commitment and involvement on the part of management, all the workers, the customers and suppliers."

Thus TQM involves concern for continuous improvement in quality, customer orientation and empowerment of employees.

Schmidt and Finnigan (1992) suggest that TQM roots include:

1. ***Scientific Management:*** Finding the best way to do a job.
2. ***Group Dynamics:*** Testing and organizing the power of group experience.
3. ***Training and development:*** Investment in human capital.
4. ***Achievement Motivation:*** People get satisfaction from accomplishment.
5. ***Employee Involvement:*** Employee should have some influence in the organization.
6. ***Socio-technical System:*** Organization operates as an open system.
7. ***Organization Development:*** Helping the organization to learn and change.
8. ***Corporate Culture:*** Beliefs, myths and values that guide the behaviour of people throughout the organization.
9. ***New Leadership Theory:*** Inspiring and empowering others to act.
10. ***The Linking Pin Concept of Organizations:*** Creating cross cultural teams.
11. ***Strategic Planning:*** Determining where to take the organization and how and when to get there.

Hence, TQM is not just limited to products and services but it encompasses quality at People, Process and Management Level. TQM is a philosophy that involves everyone into the cycle of continuous improvement in the system in order to strive for customer satisfaction.

## 18.1 Break Even Analysis

Break-even analysis shows the relationship between costs and profits with the sales volume. It determines the activity where total cost is equal to total sales i.e. point of zero profit and zero loss. It can be used to determine probable profits at any level of activity.

Mathematical Calculation of Break-even Analysis:

Break-Even Point (`) = $\frac{\text{Fixed Cost}}{\text{P/V Ratio}}$

Break-Even Point (Units) = $\frac{\text{Fixed Cost}}{\text{Contribution per Unit}}$

P/V Ratio = $\frac{\text{Contribution}}{\text{Net Sales}} \times 100$

Contribution = Sales – Marginal Cost

Margin of Safety = Actual Sales Revenues – Break-even Sales Revenue

Margin of Safety Ratio = $\frac{\text{Margin of Safety}}{\text{Actual Sales(`)}}$

Profit = Margin of Safety × P/V Ratio

### Break-even Graphics

Break-even graphic representation depicts the relationship between costs, volume and profits. It not only shows BEP but also the effects of costs and revenue at varying levels of sales.

Assumptions regarding BEP graph:

1. Cost can be divided into variable and fixed component.
2. Fixed cost remains constant during relevant volume range of graph.
3. Variable cost per unit will remain constant during relevant volume range of graph.
4. Selling price per unit will remain constant irrespective of quantity sold with the relevant range of graph.
5. In case of multi-product company even sales mix remains constant.
6. Production and sales volumes are equal.

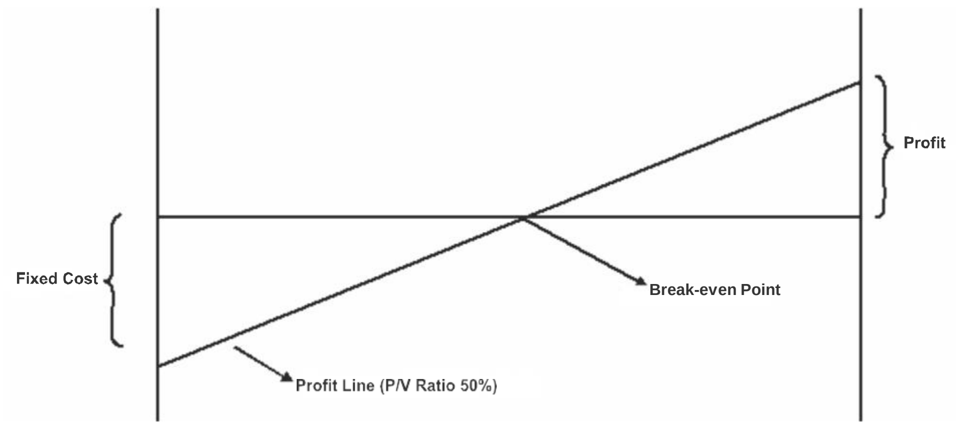
Notes Break-even point helps in determining how many units should be sold in order to break even at a given selling price.

BEP is an effective management tool as it provides insights into the effects of interrelationship of factors which influences profits of the project. The relationship between cost, volume and profit makes up the profit structure of the project. It is very useful for budgeting and profit planning.

***Profit Volume Graph:*** It shows the relationship between profit and volume. It is also called as P/V graph. It is constructed as follows:

1. Select an appropriate scale for sales volume on horizontal axis. It will be called sales line. This line is drawn in the middle region so that both profits and losses can be depicted.
2. Select an appropriate scale for profit and loss (fixed cost) on vertical axis. Fixed cost is below the sales line on left hand side of vertical axis and profits are shown on the right hand side above the sales line.
3. Points are plotted on P/V graph for required FC and profit at 2-3 assumed sales levels. Profits are selected in such a way that one profit is above sales and the below the sales line.
4. Origin of the curve is a point of total fixed cost at zero level of sales.
5. Now if we join the points of origin with two points developed as per step 3 by a diagonal line which crosses the sales line, the intersecting point is Break Even Point (BEP).

**Figure 11.2: Break Even Analysis**




## Human Resource Management (HRM)

Many small businesses operate with no employees. One person handles the whole business with perhaps occasional help from family or friends. Making the leap to hiring someone to help is a big one because all of a sudden you need to worry about payroll, benefits, unemployment insurance, and what seems like a myriad of other details. And, this does not even take into consideration the host of problems that can arise from personality conflicts and loss-of-control of all the processes in running your business.

People are the real assets of an organization. If treated well, they can take organizations to commanding heights. Two plus two could be four or even ten. Organizations are, generally, driven by a set of predetermined goals. They employ physical, financial and human resources in order to achieve the goals. These goals have no meaning unless people understand the underlying philosophy, translate them into concrete action plans and put their heart while realizing the targets. Organizations, thus, depend on people for their survival and growth. In a similar way, people need organizations.

The vast majority of people work to support themselves and their families. But people work for many reasons other than economic security. For example, they may also work to keep busy and

feel useful, to create and achieve something. They want to gain recognition and achieve status or to test and stretch their capabilities. To meet these multifarious needs, people and organizations join hands. Unfortunately, this union seldom approaches perfection. Organizations face several problems in meeting their goals, and likewise, employees report some problems in their attempts to be productive and efficient in their jobs and to feel satisfied in their work lives. The challenge of human resource management is to minimise these obstacles and problems and improve the contributions made by people to organizations.

## 12.1 Importance of HRM

People have always been central to organizations, but their strategic importance is growing in today's knowledge-based industries. An organization's success increasingly depends on the Knowledge, Skills and Abilities (KSAs) of employees, particularly as they help establish a set of core competencies that distinguish an organization from its competitors. With appropriate HR policies and practices an organization can hire, develop and utilize best brains in the marketplace, realise its professed goals and deliver results better than others.

Human Resource Management helps an organization and its people to realize their respective goals thus:

### At the Enterprise Level

(a) Good human resource practices can help in attracting and retaining the best people in the organization. Planning alerts the company to the types of people it will need in the short, medium and long run.

(b) It helps in training people for challenging roles, developing right attitudes towards the job and the company, promoting team spirit among employees and developing loyalty and commitment through appropriate reward schemes.

### At the Individual Level

Effective management of human resources help employees, thus:

(a) It promotes team work and team spirit among employees.

(b) It offers excellent growth opportunities to people who have the potential to rise.

(c) It allows people to work with diligence and commitment.

### At the Society Level

Society, as a whole, is the major beneficiary of good human resource practices.

(a) Employment opportunities multiply.

(b) Scarce talents are put to best use. Companies that pay and treat people well always race ahead of others and deliver excellent results.

### At the National Level

Effective use of human resources helps in exploitation of natural, physical and financial resources in a better way. People with right skills, proper attitudes and appropriate values help the nation to get ahead and compete with the best in the world leading to better standard of living and better employment.

developmental needs, and provides meaningful feedback to his or her employees is far more likely to be successful than the owner who is neglectful in any of these areas.

## 12.2 Human Resource Development

Human Resource Development (HRD) is a positive concept in human resource management. It is based on the belief that an investment in human beings is necessary and will invariably bring

in substantial benefits to the organization in the long run. It aims at overall development of human resources in order to contribute to the well being of the employees, organization and the society at large.

*Notes* HRD is rooted in the belief that human beings have the potential to do better. It, therefore, places a premium on the dignity and tremendous latent energy of people. Where balance sheets show people on the debit side, HRD seeks to show them as assets on the credit side.

According to Prof. T.V. Rao, HRD is a process by which the employees of an organization are helped in a continuous and planned way to: (1) acquire or sharpen capabilities required to perform various functions associated with their present or expected future roles; (2) develop their general capabilities as individuals and discover and exploit their own inner potential for their own and/or organizational development purposes; (3) develop an organizational culture in which superior-subordinate relationships, team work and collaboration among sub units are strong and contribute to the professional well being, motivation and pride of employees. (Udai Pareek and T.V.Rao).

In short, HRD aims at helping people to acquire competencies required to perform all their functions effectively and make their organization do well.

It is about updating the human skills to meet the changing needs. HR Manager has to act as a change-agent and OD consultant for organizational development and R&D.

*Did u know?* HRD is that component of HRM which deals with the development of human resources.

Competent employees may not remain competent forever. Some are minimally qualified upon entering the organization and require additional training or education. Others enter the organization, capable of performing at the optimum level, but their skills become obsolete after some time. Organizations change over time and management must ensure that there is an appropriate match between individual ability and organizational needs for the future. Employee training gives individual the specific skills that they require for effective execution of their responsibilities. Management development, career planning, career counseling and guidance are also the key responsibilities of HRD.

*Caution* Even though we have latest technology but if there is none to operate, then there is no use. So, proper training is required to upgrade the skills of the employees.

## 12.3 Industrial Relations Pricing

Human resource management is about managing people so that businesses are competitive and successful. To do this in a fast-changing global economy, HRM & IR professionals keep up with issues and trends that affect employment relationships – the labour market and economics, the product or service market, the political environment, environmental concerns, technological change, employment regulations, organisational psychology and social trends.

Industrial relations are also a multidisciplinary field that studies the collective aspects of the employment relationship. It is increasingly being called Employment Relations (ER) because of the importance of non-industrial employment relationships. IR has a core concern with social justice through fair employment practices and decent work. People often think industrial relations is about labor relations and unionized employment situations, but it is more than that. Industrial relations covers issues of concern to managers and employees at the workplace, including workplace bargaining, management strategy, employee representation and participation, union- management cooperation, workplace reform, job design, new technology and skill development.

*Notes* An IR expert will more usually work for a trade union in order to represent employees' interests. However, they may work for an employer in an HRM department, or for an employers' association or consultancy, serving the employers' interests.

Major tasks of HRM and IR are: hiring staff, negotiation of employment contracts and conditions, performance management and reward systems, dispute resolution, disciplinary processes, ensuring health and safety of staff, employee motivation, design of work, team and organization restructuring, and training and development.

"Industrial relations" pose one of the most delicate and complex problems to modern industrial society. With growing prosperity and rising wages, workers have achieved a higher standard of living; they have acquired education, sophistication and greater mobility. Career patterns have changed for larger section of the people have been constrained to leave their farms to become wage-earners and salary-earners in urban areas under trying conditions of work. Ignorant and drenched in poverty, vast masses of men, women and children have migrated to urban areas. The organizations in which they are employees have ceased to be individually owned and have become corporate enterprises.

At the same time, however, a progressive, status-dominated, secondary group-oriented, universalistic, aspirant and sophisticated class of workers has come into being, who have their own trade unions and who have, thus, gained a bargaining power which enables them to give a tough fight to their employers to establish their rights in the growing industrial society. As a result, the Government has stepped in and played an important role in establishing harmonious industrial relations, partly because it has itself become an employer of millions of industrial workers, but mainly because it has enacted a vast body of legislation to ensure that the rights of industrial workers in private enterprises are suitably safeguarded. Besides, rapid changes have taken place in the techniques and methods of production. Long established jobs have disappeared and new employment opportunities have been created, which call for different patterns of experience and technical education. Labour employer relationships have, therefore, become more complex than they were in the past and have been given a sharp edge because of the widespread labour unrest. In the circumstances, a clear understanding of the factors which make for this unrest and which are likely to eliminate it would be a rewarding experience for anyone who is interested in industrial harmony.

## 12.4 Labour Laws

Labor law seeks to regulate the relations between an employer or a class of employers and their employees. The access of this law is the widest, in that it touches the lives of far more people, indeed millions of men and women as compared to any other branch of law and this is the aspect which makes it the most fascinating of all branches of law and the study of this subject is of enormous dimension and of ever changing facets.

There has been a remarkable change in the approach to Labor law and industrial relations since the World War IL Philadelphia Charter adopted in 1944 provided that “Labor is not a commodity” and that “poverty anywhere is a danger to prosperity everywhere”. W. Friedmann and others who have tried to analyse the essential characteristics of the legal development in this branch of law consider ‘social-duty’-on-the part of employer as the main bed rock on which this law is built. This is exemplified by the very approach of law makers to the construction of a wage packet of the working man in the post-second World War period, wage fixation and legislation relating to condition of work. The Indian Constitution lays down broad guidelines to be followed by State.

Otto Kahn-Freund in his book on *Labor and the Law* makes the following points.

(i) The system of collective bargaining rests on a balance of the collective forces of management and organized labor. The contribution which the courts have made to the orderly development of collective labor relations has been infinitesimal. Collective bargaining is a process by which the terms of employment and conditions of service are determined by agreement between management and the union. In effect, “It is a business deal (which) determines the price of labor services and terms and conditions of labor’s employment.”

(ii) The Law governing labor relation is one of the central branches of the law on which the very large majority of people earn their living. Nonetheless, law is a secondary force in human relations and especially in labor relations.

(iii) Law is a technique for the regulation of social power. This is true of labor law as it is of other aspects of any legal system. Labor Law also seeks to lay down minimum standard of employment. It lays down norms by which basic conditions of labor are fulfilled such as maximum working hours, minimum safety conditions, minimum provisions for holidays and leave protection for women and children from arduous labor, prohibition of children below certain age from employment and provision for minimum standards of separation benefits and certain provision for old age.

Small-business owners already have a lot to worry about, and lawsuits brought by employees are just one more thing to add to that list of worries. For many small businesses, a single unfavorable jury verdict could deplete company assets enough to result in bankruptcy. As such, it is vital for owners and managers to learn the basic labor laws that apply to their company.

Some of the labor laws in India are:

***Workmen’s Compensation Act of 1923***

The Workmen’s Compensation Act compensates a workman for any injury suffered during the course of his employment or to his dependents in the case of his death. The Act provides for the rate at which compensation shall be paid to an employee. This is one of many social security laws in India.

*Trade Unions Act of 1926*

This Act enacted the rules and protections granted to Trade Unions in India. This law was amended in 2001.

### *Payment of Wages Act of 1936*

The Payment of Wages Act regulates by when wages shall be distributed to employees by the employers. The law also provides the tax withholdings the employer must deduct and pay to the central or state government before distributing the wages.

### *Industrial Employment (Standing Orders) Act of 1946*

This Act requires employers in industrial establishments to define and post the conditions of employment by issuing so-called standing orders. These standing orders must be approved by the government and duly certified. These orders aim to remove flexibility from the employer in terms of job, hours, timing, leave grant, productivity measures and other matters. The standing orders mandate that the employer classify its employees, state the shifts, payment of wages, rules for vacation, rules for sick leave, holidays, rules for termination amongst others.

### *Industrial Disputes Act of 1947*

The Industrial Disputes act 1947 regulates how employers may address industrial disputes such as lockouts, layoffs, retrenchment etc. It controls the lawful processes for reconciliation, adjudication of labor disputes.

The Act also regulates what rules and conditions employers must comply before the termination or layoff of a workman who has been in continuous service for more than one year with the employer. The employer is required to give notice of termination to the employee with a copy of the notice to appropriate government office seeking government's permission, explain valid reasons for termination, and wait for one month before the employment can be lawfully terminated. The employer may pay full compensation for one month in lieu of the notice. Furthermore, employer must pay an equivalent to 15 days average pay for each completed year of employees continuous service. Thus, an employee who has worked for 4 years in addition to various notices and due process, must be paid a minimum of the employee's wage equivalent to 60 days before retrenchment, if the government grants the employer a permission to layoff.

### *Minimum Wages Act of 1948*

The Minimum Wages Act prescribes minimum wages in all enterprises, and in some cases those working at home per the schedule of the Act. Central and State Governments can and do revise minimum wages at their discretion. The minimum wage is further classified by nature of work, location and numerous other factors at the discretion of the government. The minimum wage ranges between ` 143 to 1120 per day for work in the so-called central sphere. State governments have their own minimum wage schedules.

### *Industries (Regulation and Development) Act of 1951*

This law declared numerous key manufacturing industries under its so-called First Schedule. It placed many industries under common central government regulations in addition to whatever laws state government enact. It also reserved over 600 products that can only be manufactured in small scale enterprises, thereby regulating who can enter in these businesses, and above all placing a limit on the number of employees per company for the listed products. The list included all key technology and industrial products in early 1950s, including products ranging from certain iron and steel products, fuel derivatives, motors, certain machinery, machine tools, to ceramics and scientific equipment.

Employees Provident Fund and Miscellaneous Provisions Act of 1952

This Act seeks to ensure the financial security of the employees in an establishment by providing for a system of compulsory savings. The Act provides for establishments of a contributory Provident Fund in which employees' contribution shall be at least equal to the contribution payable by the employer. Minimum contribution by the employees shall be 10-12% of the wages. This amount is payable to the employee after retirement and could also be withdrawn partly for certain specified purposes.

### *Maternity Benefit Act of 1961*

The Maternity Benefit Act regulates the employment of the women and maternity benefits mandated by law. Any woman employee who worked in any establishment for a period of at least 80 days during the 12 months immediately preceding the date of her expected delivery, is entitled to receive maternity benefits under the Act. The employer is required to pay maternity benefits, medical allowance, maternity leave and nursing breaks.

### *Payment of Bonus Act of 1965*

This Act, applies to an enterprise employing 20 or more persons. The Act requires employer to pay a bonus to persons on the basis of profits or on the basis of production or productivity. The Act was modified to require companies to pay a minimum bonus, even if the employer suffers losses during the accounting year. This minimum is currently 8.33 percent of the salary.

### *Payment of Gratuity Act of 1972*

This law applies to all establishments employing 10 or more workers. Gratuity is payable to the employee if he or she resigns or retires. The Indian government mandates that this payment be at the rate of 15 days salary of the employee for each completed year of service subject to a maximum of 1000000.

## 12.5 Pollution Control Laws

In 1976, when the Indian parliament passed the 42nd amendment to its constitution safeguarding the environment, it became the first country in the world to do so. The amendment was to “endeavor to protect and improve the environment and to safeguard the forests and wild life of the country.” It imposes a duty on every Indian citizen “to protect and improve the natural environment including forests, lakes, rivers, and wild life, and to have compassion for living creatures.” According to the Environment Protection Act of 1986, Environment is that which includes the “interrelationship which exists among and between water, air, and land and human beings, other living creatures, plants, microorganism and property.” Essentially, The Water (Prevention & Control) Act, 1974 can be considered to be truly the first regulations. It has been amended many times since then. Basically, there are six Pollution regulations:

1. The Water (Prevention & Control of Pollution) Act, 1974, and its amendments;
2. The Water (Prevention & Control of Pollution) Cess Act, 1974 and its amendments;
3. The Air (Prevention & Control of Pollution) Act, 1981 and its amendments;
4. The Environment (Prevention) Act, 1986 and its amendments,

(a) National Environmental Tribunal Act of 1995 and

(b) National Environmental Appellate Authority Act of 1997;

5. Hazardous Waste (Management and Handling) Rules, July 1989 and
6. The Public Liability Insurance Act, 1991.

**Export Marketing**

‘Export marketing includes the management of marketing of marketing activates for products, whichcross the national boundaries of a country.- B.S. Rathor

‘Export marketing is the performance of business activities that direct the flow of company’s goods and services to the consumer or users in more than one nation. – Hess and Cateora

### Introduction to Export Marketing

The world is shrinking rapidly due to advancement in the means of transport and communication and information technology. Due to this the interdependence of countries has increased.
The slogan ‘Export or Perish’ coined by Shri Jawaharlal Nehru in early sixties finds its validity in the present context as well when not only underdeveloped and development countries but also advanced countries of the world have realized the importance of export trade.
Export marketing is the process of exchanging goods and services between the resident of one country to the resident of another country.

### Features of Export Marketing

(a) Lengthy Procedure
(b) Large scale operations
(c) Dominance of MNC’s from Developed countries
(d) Trade barriers
(e) Trading Blocks
(f) International Marketing Research
(g) Importance of Advance technology
(h) Foreign Exchange Regulations
(i) Three faced competition

(j) International organizations

**Scope of Export Marketing**

(a) Export Marketing Research
(b) Research & development in advance technology
(c) Export Financing
(d) Export Production
(e) Export Packaging
(f) Export Pricing
(g) Export Procedure
(h) Export Incentive & Assistance
(i) EXIM Policy

**Scope of Export Marketing –**

Export marketing is a whole process of getting an order from a foreign country, its successful execution and realization of sales proceeds.

1) **Export marketing research** – Marketing research plays an important role in the international trade. The needs and requirements of individuals differ from region to region. Therefore, in order to satisfy wants of consumer in different parts of the world their needs and requirements must be properly understood through effective marketing research techniques.
2) **Research and development** – Technology plays an important role in building competitive strength. Countries, like USA, Japan and Germany dominate the world trade due to the use of advanced technology. Technology changes rapidly and therefore, every exporter must upgrade himself through continuous research and development.
3) **Export financing** – Exporters require finance at both pre-shipment as well as at post-shipment stage pre-shipment finance, also referred to as packing credit, is required prior to the shipment of goods for execution of export order while post-shipment finance is required after theshipment of goods for meeting working capital requirements.
4) **Export production** – Price is an important factor that determines the success of an exporter in the highly competitive international market. Large-scale operations, full utilization of installed capacity and transactions in bulk reduce overall cost of production and thereby price of the product. At the same time, large-scale production leads to economies of scale.
5) **Export packaging** – Packaging plays an important role in the international market. Attractive and durable packing not only protects the product but also acts as a silent salesman. Certain countries have laid down strict packing standards for goods imported by them. An exporter can avail assistance of the Indian Institute of packaging (IIP) in this regard.
6) **Export Pricing** – While quoting price to the foreign buyer, an exporter must keep in mind that the price quoted is reasonable and final as it is the buyers' market. Other factors such as price charged by the competitors, incentives offered by the government, elasticity of demand for the product, etc., should also be taken into consideration.
7) **Export procedure** – Export procedure is very lengthy and complicated as it consists of many procedural formalities such as registration formalities, customs formalities and licensing formalities. Every exporter is expected to be well aware of such formalities else assistance of the clearing and forwarding agents (C & F agents) should be taken.
8) **Export Incentives and Assistance** – The government of India gives a number of incentives to the Indian exporters such as, duty drawback, concession on IT payment, exemption from sales tax and excise etc. In order to availed benefit of these incentives, an exporter must register himself with an appropriate Export Promotion Council (EPC) or Commodity Board (CB).
9) **EXIM Policy** – The foreign trade of India is guided by the provisions EXIM policy of the government of India and is regulated by the Foreign Trade (Development and Regulation) Act. EXIM Policy contains various policy decisions taken by the government in the sphere of foreign trade and more especially export promotion measures, policies and procedures related thereto.

**ROLE OF EXPORT**

(1) To Meet imports of industrial needs : No country today can survive in isolation. The developing countries need imports of capital equipments, raw materials of critical nature, technical knowhow for building the industrial base in the country with a view to rapid industrialization and developing the necessary infrastructure.

There is only option to avoid the situation is to establish the export oriented industries and to increase the existing installed capacity of units producing goods for export markets.

If a country fails in meeting the import bill by exporting the goods and services from the other country, the difference is trade which cannot be said to be a pleasant situation.

(2) Debt Servicing : Almost all underdeveloped countries, including India, have been receiving external aid over the years for their industrial development. The natural consequence of aid has been the need for debt servicing i.e., arrangement of foreign exchange every year equal to the installment and interest assumed thereon as per term of the aid or loan.

(3) Rapid economic growth : An expanding export trade can be a dynamic factor in a country's development process. How ever, one has to plan imaginatively in increasing the production of exportable surpluses.

This will lead to

(i) Earning of more valuable foreign exchange.
(ii) 'Spin off' benefits for the domestic consumer by exposing the industry to international markets and making it more competitive as well conscious of costs and quality.
(iii) Mitigate unemployment in labour intensive industries. Established new and new industrial units for contributing towards export.
(iv) Full utilization of idle resources.

(4) Profitable use of natural resources : Natural resources are valuable assets of a country which should be exploited ideally keeping the interest of the country in mind. This can be well done by export marketing.

(5) Facing competition successfully : Domestic producer in order to avail these Govt. concessions, concentrates his mind towards the improvement of quality of goods produced and reducing the cost of production so as to face the acute competitive situation in the foreign markets by making intensive use of latest technology.

(6) Increase in employment opportunities : Many oriented industrial units are established and the existing. Units produce more to get exportable surplus. This generates new opportunities for employment and increases the existing level of employment.

(7) Role of exports in national income : Exports play an important role in the national income of the country and it can be increased to a sizable extent through organized export marketing.

(8) Increase in the standard of living.

(i) The imports of necessary items for consumptions.
(ii) Exports increase the employment opportunities which, in turn, increase the purchasing power of the peoples.
(iii) New items are produced for consumption in the domestic market.
(iv) In order to face the competition. People gets better quality products at cheaper rates.

(B) Importance of Export Marketing from the Role of Export from the Point of view of Individual Firm.

(1) Insufficiency of domestic demand
(2) To utilize installed capacity.
(3) Legal Restrictions

(4) Relative profitability
(5) Less business risk
(6) Increased productivity
(7) Social responsibility
(8) Technological improvements
(9) Product obsolescence

(C) Importance Role of Export from other viewpoints

(1) International collaboration
(2) Closer cultural relations
(3) Help in political peace

**Why should a firm export or go Global?**

1. **Profit advantage**: International business could be more profitable than the domestic. Because of bulk sales in International marketing, the rate of profit to be earned, may be higher than the corresponding rate on the domestic rates.
2. **Growth opportunities**: Firm may enter in International marketing to take advantage of the business opportunities available in other countries. Most of the multinational corporations are getting increasingly interested in a number of developing countries as the income and population are rapidly rising in these countries.
3. **Domestic market constraints** : The level of domestic demand may be insufficient for utilizing the installed capacity in full, or government may impose certain restrictions on further growth and capacity expansion of some firm. In such situation a firm may attract to expand its marketing beyond the national border.
4. **Competition** : A protected market does not normally motivate companies to seek business outside the home market. Besides, the pressure of increased foreign competition can persuade a company to expand its business into International markets.
5. **Government policies and regulations** : Many governments offer a number of incentives and other positive support to domestic companies to export and to invest in foreign countries. If policies of a government are favourable for International marketing, a firm could like to go or expand its activities in abroad.
6. **Monopoly power** : In some cases, International business is a corollary themonopoly power which a firms enjoys Internationally. Such power may arise due to many factors (patent rights, technological advantage etc.) and may help Internationalization.
7. **Strategic vision** : The stimulus for Internationalization comes from the hope to grow, the need to become more competitive, the need to diversity and to gain strategic advantages of Internationalization.